

The SMM Group's Risks and Opportunities

As the SMM Group engages in value creation, it identifies, classifies and organizes the risks and opportunities that affect that value. We then use those results in making medium- to long-term strategies and, by undertaking actions through a risk management system (RMS), we strive to more reliably maximize corporate value and contribute to a sustainable society.

The SMM Group's RMS

SMM's RMS identifies and evaluates risks, particularly risk of serious infringement of laws and social values, risk of significant adverse effects to society or a third party, risk that invites serious damage to the social credibility of SMM, and risk of serious adverse effects on business operations, and then manages these risks according to priority.

Each individual risk and opportunity is classified as to whether it is a risk with potential to cause a serious environmental accident or disaster, in which case it will be managed through our RMS, or a managerial risk or opportunity.

Regarding risks managed through the RMS, we strive to maintain responsible operations, primarily through a management process involving risk identification and evaluation, preventive measures, proactive mitigation measures, and rapid response in the case of occurrence.

For managerial risks or opportunities, we reduce the risk or strategically turn it into an opportunity and maximize the effect by leveraging our business processes and seven strengths.

Furthermore, regarding the implementation of each of these activities, their appropriateness from a CSR point of view is properly evaluated and responded to in advance under an effective governance structure.

External environment/ social issues



Risks

- Especially serious risks out of those specified and managed by the RMS**
- ① Explosions and fires
 - ② Leak of a harmful substance (into air, water, or soil)
 - ③ Earthquake
 - ④ Discharge of slag and the like due to dam or culvert failure
 - ⑤ Damage from terror, hostage-taking, riots, or other such incidents
 - ⑥ Theft of explosives or poisonous materials
 - ⑦ Pandemic of a new-strain of influenza or other disease

Managerial risks

- ① Decline in profits due to fall in commodity prices and yen appreciation
- ② Increase in cost of investing in and operating mines
- ③ Increased taxation and rise in resource procurement risk
- ④ Increase in investment and operation costs due to tightened regulation
- ⑤ Fiercer competition for acquiring superior mining sites
- ⑥ Decline in the superiority of HPAL technology
- ⑦ Delays to development, operation, or expansion of sites, or the removal of permissions, due to opposition by local people or government action
- ⑧ Decline in selling prices or losing competitiveness of materials products

Opportunities

Managerial opportunities

- ① Rapid production increase of electric vehicles/ higher demand for nickel and cobalt as battery materials
- ② Increasing demand for high-speed communication devices and movement toward multiband, increasing demand for SAW filters or LT/LN
- ③ Decline in metal prices/financial damage to major mineral resource companies and asset reclassification and rearrangement
- ④ Increasing demand for stable procurement of conflict-free materials
- ⑤ Increasing demand for nickel from low-grade ore as a resource

● = Especially serious risk out of those specified and managed by the RMS
 ○ = Risk caused primarily by external factors ○ = Opportunity

Governance

RMS

CSR Management

Business Process

Seven Strengths

Handling of risk or opportunity

Responsible operation based on risk management

Reduce risk or convert to opportunity via strengths

Use strengths to leverage opportunity

Strategic PDCA

Specific strategies regarding risks or opportunities

- ①-⑦ **Implement and maintain risk management (preventive measures, proactive mitigation measures, etc.) through RMS**
 - 🔗 Risk management (p. 102)
- ① ② ③ **Minimize costs by increasing operational efficiency and productivity at highly cost-competitive mines and refineries**
 - 🔗 Refineries with robust cost competitiveness (p. 52)
- ② **Accelerate development of technology for strengthening ability to handle hard-to-process ores**
 - 🔗 Effective use of resources (p. 64)
- ④ ⑦ **Cultivate relationships of trust with local communities, employees who share in SMM's philosophy and goals**
 - 🔗 Activity highlights (p. 72, 75)
- ⑥ **Maintain cost advantage by recovering and commercializing scandium and chromite, by-products of HPAL technology**
 - 🔗 Start of mass production of scandium for use in fuel cells (p. 50)
- ⑧ **Maintain a positive development cycle and strengthen technological capabilities through continued good relationships with customers**
 - 🔗 Materials business (p. 56)
- ② ⑤ ① ⑤ **Use HPAL technology to obtain nickel (Ni) and cobalt (Co) from low-grade oxide ore, a challenge for other companies at commercial production level**
 - 🔗 Use of low-grade nickel oxide ore with HPAL technology (p. 52)
 - 🔗 Effective use of resources (p. 78)
- ③ ⑤ **Maintain a good management base for interest acquisition based on sound financial standing and robust relationships with partners**
 - 🔗 Financial strategies (p. 36)
 - 🔗 Aiming to acquire gold interests with a new dedicated Business Development Team (p. 46)
- ① ④ ⑤ **Establish our superiority as a supplier and reduce procurement risk for customers, including making resource origins transparent, by developing a consistent business process from interest acquisition to material production**
 - 🔗 Moving Taganito HPAL Nickel Corporation to a 36,000-ton annual nickel production structure to keep up with the rapid increase in demand for automobile-use secondary battery cathode materials (p. 52)
 - 🔗 LBMA (p. 93), EITI (p. 99)
 - 🔗 The SMM Group's business process (p. 22)
- ② **Leverage our many years of experience developing crystal technology (growth, processing, etc.) to maintain our superiority and handle production increases**
 - 🔗 Materials business (p. 54)

🔗 Related information (reference page)